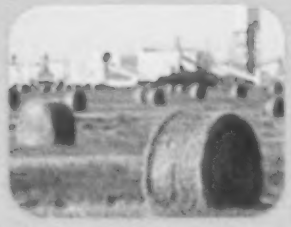
2013 THIRD QUARTER REPORT
SEPTEMBER 30, 2013

SaskEnergy



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CORPORATE PROFILE

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC), which is also a Crown corporation that effectively operates as the Province's holding company for commercial Crown corporations and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility. SaskEnergy owns and operates the Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent ministerial advisory committee, prior to receiving Provincial Cabinet approval. SaskEnergy's corporate structure includes five wholly owned and two indirect wholly owned subsidiaries as follows:

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta. Bayhurst has two wholly owned subsidiaries as follows:

Bayhurst Energy Services Corporation (BESCO) is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant, which is carried out through a joint operation with an unrelated third party.

BG Storage Inc. (BGSI) owns a 50 per cent interest in a natural gas storage facility, which is carried out through a joint operation with an unrelated third party.

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns several transmission pipeline interconnections to Alberta, the United States and Manitoba, all of which connect to the TransGas Limited system. MIPL is regulated by the National Energy Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructure. *Sask 1st Call* provides a service whereby landowners and other stakeholders can request the location of subscribers' underground facilities. *Sask 1st Call* operates on a break-even basis and therefore, its rate structure is designed to recover all operational costs.

Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito and Minitonas. SVGC is regulated by the Manitoba Public Utilities Board.

TransGas Limited (TransGas) owns and operates a natural gas Transmission Utility and has the exclusive legislated franchise to transport natural gas within the Province. It also owns and operates a non-franchised natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

As a Crown corporation, SaskEnergy is committed to ensuring that all corporate activities are in strategic alignment with the Government of Saskatchewan's Crown Sector Priorities. Providing safe, reliable, high quality service to its customers is critically important to the Corporation – as is the provision of infrastructure necessary for the Province to grow and prosper.

VISION, MISSION AND VALUES

Vision

To create a competitive advantage for Saskatchewan through safe, innovative energy solutions.

Mission

Our team of engaged employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

Values

Community
We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.
Recognition
We take time to recognize the individual and team contributions of our employees.
Spirit
We create a positive and dynamic work environment that enables personal achievement, work life balance & business success.
Safety
We never compromise the safety of our employees and the public.
Communication
We have open, honest and respectful communication that builds strong relationships.
Accountability
We are accountable for our decisions, our actions and the results.
Integrity
We are honest, respectful and apply high ethical standards.

FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Financial Highlights				
($ millions)				
Income (loss) before unrealized market value adjustments	**$ (19)**	$ (16)	**$ 36**	$ 14
Consolidated net income (loss)	**(22)**	15	**32**	52
Dividends	**7**	5	**21**	17
Capital expenditures	**64**	48	**122**	115
Total assets			**2,061**	1,927
Long-term debt			**812**	862
Debt ratio			**58.5%**	59.7%
Operating Highlights				
Distribution				
Volumes distributed (Petajoules)	**26**	23	**120**	103
Weather (compared to last 30 years)	**32% warmer**	30% warmer	**9% colder**	13% warmer
Transmission				
Volumes transported (Petajoules)	**50**	45	**184**	164
Peak day natural gas flows (Petajoules)			**1.20**	1.16
Date of peak flow			**January 30**	January 18

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and results of operations for the nine month period ended September 30, 2013. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. For additional information related to the Corporation, refer to SaskEnergy's Annual Report for the year ended December 31, 2012. This MD&A is presented as at November 13, 2013 and should be read in conjunction with the Corporation's condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS).

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. The significant uncertainties and risks affecting the Corporation's financial condition and results of operations include natural gas prices and winter weather. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by, or implied by such statements.

The volume of natural gas distributed is sensitive to variations in the weather, particularly through the prime heating season of November to March. Additionally, changes in market value adjustments may cause significant fluctuations in net income due to the volatility of natural gas prices. Therefore, the condensed consolidated financial results should not be taken as indicative of the performance to be expected for the full year.

In order to compare financial performance from period to period, the Corporation uses the following measures: income before unrealized market value adjustments, realized margin on commodity sales and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to the lower of cost and net realizable value. These unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, having no standardized definition, and may not be comparable to similar measures presented by other entities.

Consolidated Financial Results

(millions)	Three months ended September 30 2013	2012	Change	Nine months ended September 30 2013	2012	Change
Income (loss) before unrealized market value adjustments	**$ (19)**	**$ (16)**	**$ (3)**	**$ 36**	**$ 14**	**$ 22**
Impact of fair value adjustments	**(3)**	11	(14)	**(6)**	18	(24)
Revaluation of natural gas in storage	-	20	(20)	**2**	20	(18)
Consolidated net income (loss)	**$ (22)**	$ 15	$ (37)	**$ 32**	$ 52	$ (20)

The Corporation began 2013 with a strong first nine months, reporting income before unrealized market value adjustments of $36 million, a considerable improvement from 2012. The main driver of the Corporation's results was the weather, which was 9% colder than normal and 23% colder than the same period in 2012. The cold weather led to increased natural gas consumption, and when combined with a significantly lower average cost of commodity gas sold, resulted in a $22 million improvement in income before unrealized market value adjustments.

Natural gas prices continue to be a factor that can drive significant volatility, as evidenced by the $42 million change in unrealized market value adjustments on a period-over-period basis. As a result, consolidated net income of $32 million was $20 million below the first nine months of 2012.

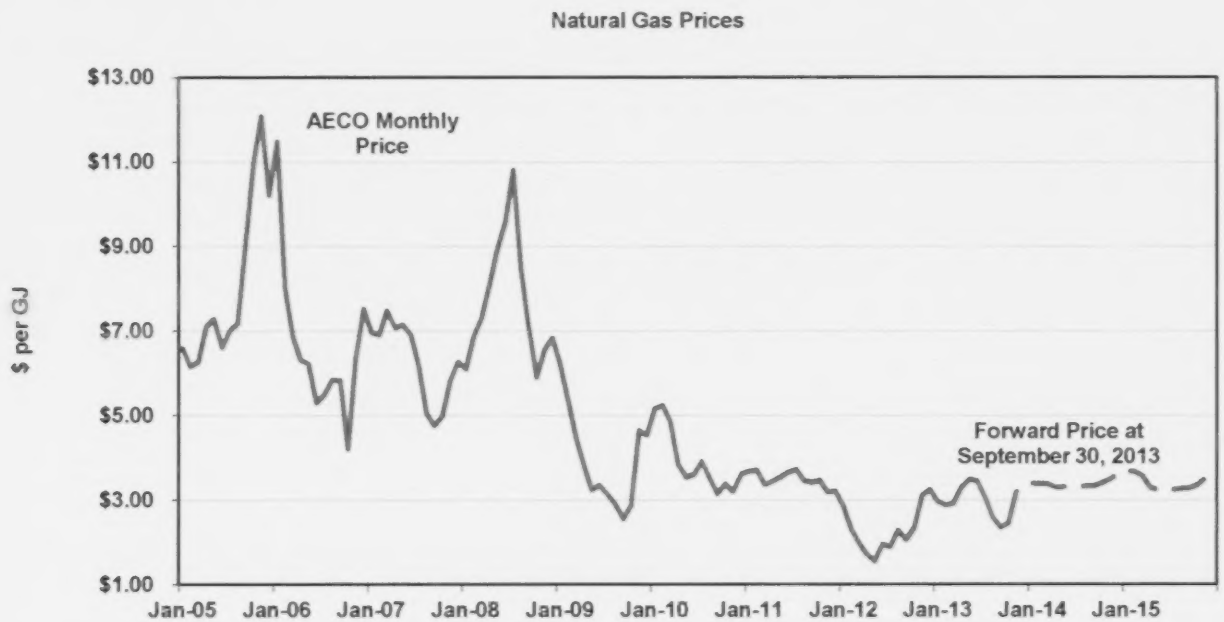
Given the cyclical nature of the Distribution Utility, the Corporation's net income often declines during the second and third quarters of each year. Revenues are reduced with warmer temperatures as less natural gas is distributed to customers, while the Corporation continues to incur operating costs throughout the year. Net income then recovers during the fourth quarter as the weather gets colder and natural gas consumption increases. The third quarter of 2013 was no exception as the Corporation reported a $19 million loss before unrealized market value adjustments, comparable with the third quarter of 2012.

Natural Gas Prices

Natural gas prices are set in an open market and are influenced by a number of variables including production, demand, natural gas storage levels and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to generate incremental electricity for air conditioning in the summer, weather has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices are typically very volatile.

Natural gas prices have been relatively stable in the first three quarters of 2013. Early in the year, a cold winter and spring, combined with slowing North American production, resulted in rising prices. Prices began to decline in the summer as demand for natural gas for power generation declined, a result of both cooler than average weather as well as high natural gas prices in relation to coal. Prices in Canada were also impacted by increases to transportation tolls out of Alberta. Heading into winter, North American storage is at near record levels, and as a result, prices may increase throughout the upcoming winter but are expected to remain below historical averages.

The following chart presents AECO natural gas prices. AECO, the major natural gas hub in Canada, is located in Alberta. Most natural gas in Saskatchewan is priced at a differential to the AECO price and is usually between $0.05 per gigajoule (GJ) and $0.20 per GJ higher than AECO.



Natural Gas Sales and Purchases

Included within natural gas sales and purchases are rate-regulated commodity sales to distribution customers and non-regulated gas marketing activities. Although presented together within the consolidated financial statements, the Corporation manages these activities as distinct and separate businesses and, as such, the MD&A addresses these natural gas sales and purchases separately.

Commodity Sales to Customers

(millions)	Three months ended September 30 2013	2012	Change	Nine months ended September 30 2013	2012	Change
Commodity sales	**$ 13**	$ 24	$ (11)	**$ 140**	$ 161	$ (21)
Commodity purchases [1]	**(21)**	(40)	19	**(134)**	(182)	48
Realized margin (loss) on commodity sales	**(8)**	**(16)**	**8**	**6**	**(21)**	**27**
Impact of fair value adjustments	**2**	33	(31)	**15**	52	(37)
Margin (loss) on commodity sales	**$ (6)**	$ 17	$ (23)	**$ 21**	$ 31	$ (10)

[1] Net of change in inventory

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel. The commodity rate, which is reviewed April 1 and November 1 of each year, is designed to recover the associated cost of natural gas sold to distribution customers without earning a profit or incurring a loss. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

To achieve its goal of delivering stable and competitive commodity rates to its customers, SaskEnergy reduces the impact of natural gas purchase price volatility through its natural gas price risk management strategy. SaskEnergy may contract for the physical delivery of natural gas using non-financial derivatives, referred to as forward or physical natural gas contracts, to ensure a secure supply of natural gas. The purchase price contained in these forward contracts may be either fixed or based on a variable index price. SaskEnergy may also use natural gas financial derivatives, primarily natural gas price swaps, to manage the future purchase price of natural gas. As derivative instruments, these natural gas contracts are recorded at fair value until the date of settlement. Changes in the fair value of derivative instruments, driven by changes in future natural gas prices and price differentials, are recorded in commodity purchases. Upon settlement of the natural gas contract, the amount paid or received by SaskEnergy is recorded in commodity purchases. The fair value does not necessarily represent the amount that will be paid upon settlement as illustrated in Note 6 of the condensed consolidated financial statements.

During the first nine months of 2013, fair value adjustments increased the margin on commodity sales by $15 million as the $48 million unfavourable fair value position at the end of 2012 improved to $33 million at the end of September 2013. The improvement was due to a reduction in the volume of the Corporation's outstanding contracts given the cyclical nature of its commodity purchases. At the end of September the average purchase price of natural gas contracts was $3.67 per GJ compared to an average market price of $3.26 per GJ. By comparison, at the end of 2012 the average purchase price was $3.61 per GJ and the average market price was $3.21 per GJ.

The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments. As mentioned previously, the commodity sales activity operates on a cost-recovery basis while employing rate-setting principles and a GCVA to ensure that, over the long term, no margin is earned on these activities. However, due to timing, as well as differences between IFRS and rate-setting principles, a gain or loss is commonly reported in the Corporation's consolidated financial statements. The Corporation realized a $6 million gain on commodity sales during the nine month period, with average revenue of $3.80 per GJ and average cost of gas sold of $3.64 per GJ. This compared to a $21 million realized loss in 2012, with average revenue of $4.26 per GJ and average cost of gas sold of $4.91 per GJ. The Corporation last adjusted its commodity rate effective April 1, 2012, when it lowered it by 16% from $4.55 per GJ to $3.82 per GJ. The Corporation sets its commodity rate using the anticipated natural gas costs over the next twelve months based on rate-setting principles, as well as refunding (or recovering) a balance owing in the GCVA. The Corporation reviewed its commodity rate for the upcoming winter season and will maintain its current rate of $3.82 per GJ. SaskEnergy will review its commodity rate again in the spring of 2014.

Due to the seasonality of the weather in the Province the volume of commodity sales to customers declines significantly in the second and third quarters. However, some of the costs associated with the Corporation's price risk management strategy do not decline with the lower sales volume. As such, losses on commodity sales are not unusual during the third quarter. For the third quarter of 2013 the Corporation realized an $8 million loss on commodity sales, which was an $8 million improvement from the third quarter of 2012, driven by a substantial reduction in the average cost of gas sold per GJ. Fair value adjustments were affected by a slight improvement in short-term future market prices that occurred towards the end of the third quarter, resulting in a $2 million improvement from the second quarter of 2013.

Gas Marketing Sales

(millions)	Three months ended September 30 2013	2012	Change	Nine months ended September 30 2013	2012	Change
Gas marketing sales	**$ 96**	$ 58	$ 38	**$ 290**	$ 169	$ 121
Gas marketing purchases [1]	**(89)**	(45)	(44)	**(268)**	(132)	(136)
Realized margin on gas marketing sales	**7**	**13**	**(6)**	**22**	**37**	**(15)**
Impact of fair value adjustments	**(4)**	(21)	17	**(15)**	(32)	17
Revaluation of natural gas in storage	**-**	20	(20)	**2**	20	(18)
Gain on gas marketing sales	**$ 3**	$ 12	$ (9)	**$ 9**	$ 25	$ (16)

[1] Net of change in inventory

SaskEnergy's gas marketing operations employ several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin as well as provide a financial benefit to SaskEnergy and TransGas customers. The most significant gas marketing activity is focused on utilizing the storage capabilities of a depleted gas field in west-central Saskatchewan. The primary strategy employed involves the purchase of natural gas accompanied by a forward sales contract. The decline in natural gas market prices over the past few years has also created an opportunity for SaskEnergy to purchase relatively low-priced natural gas to inject into this storage facility with the intent to subsequently sell it at a profit. During off-peak periods the Corporation also optimizes transmission and storage capacity by purchasing and selling natural gas in the open market to generate additional margins. The margins earned on this activity benefit customers by reducing pressure on transmission and distribution rates. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

Transactions undertaken through the Corporation's gas marketing strategies result in exposure to risk, especially given the volatility of natural gas market prices. Similar to the discussion regarding commodity sales, the Corporation may enter into various natural gas contracts in order to manage natural gas price risk for its gas marketing activities. These natural gas contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing purchases, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing purchases, as appropriate.

During the first nine months of 2013, fair value adjustments on derivative instruments reduced the margin on gas marketing sales by $15 million as the favourable fair value at September 30, 2013 was $27 million compared to the $42 million favourable fair value position at the end of 2012. Although natural gas prices on average were lower, short-term market prices for natural gas were higher at the end of September 2013 when compared to December 31, 2012. As a result, the differential between the average selling price and the average market price on natural gas sales contracts diminished slightly, and when combined with a reduction in contracted volumes, resulted in the decline in fair value adjustments. To put this into context, at the end of September the average selling price of natural gas sales contracts was $3.69 per GJ, compared to an average market price of $3.28 per GJ. By comparison, at the end of 2012 the average selling price was $3.72 per GJ and the average market price was $3.18 per GJ.

The Corporation's gas marketing natural gas in storage is carried at the lower of cost and net realizable value. At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage using forward market prices based on anticipated delivery dates. Low natural gas prices in recent years have left the net realizable value of gas marketing natural gas in storage below cost resulting in a downward revaluation of inventory. While future market prices fell from year end, the decline was offset by an 8.3 PJ reduction in inventory volumes along with a reduction in the average inventory cost when compared to December 31, 2012. As a result, there was a $2 million improvement in the revaluation of natural gas in storage, from $24 million at the end of 2012 to $22 million at the end of September 2013. If forward natural gas prices improve in relation to the cost of the Corporation's gas marketing inventory, SaskEnergy will record an additional upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the $22 million revaluation will result in improved margins in the future, as contracts are settled by virtue of the lower carrying value of natural gas in storage.

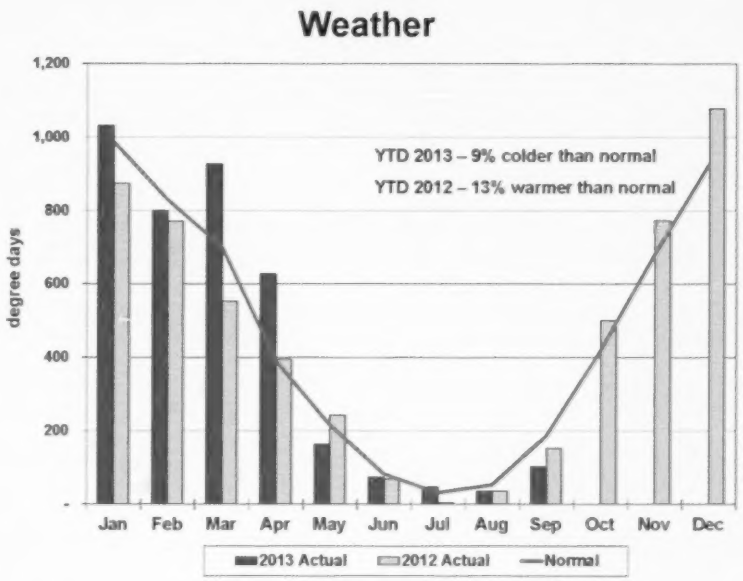
The realized margin on gas marketing sales for the nine month period, which removes fair value adjustments on financial instruments and the revaluation of natural gas in storage, was $22 million. While the Corporation increased the volume sold, relatively stable and low natural gas prices limited the margin on these transactions resulting in a $15 million decline when compared to the same period in 2012.

On a quarterly basis, the Corporation realized a $7 million margin in 2013 compared to a $13 million margin in 2012, a consequence of lower margins. Fair value adjustments on natural gas contracts declined $4 million during the third quarter. Higher short-term market prices when compared to the end of September 2013 decreased the differential between the average sales price and the average market price on natural gas contracts. Although short-term market prices improved and

the average cost of inventory declined, there was a decline in longer-term prices, resulting in no change in the revaluation of natural gas in storage.

Delivery Revenue

The Corporation earns delivery revenue based on the volume of natural gas delivered to distribution customers plus a basic monthly charge. Delivery revenue of $145 million for the first nine months of 2013 was $18 million above the same period in 2012. Since most of the natural gas delivered to customers is used for space heating purposes, the volume is directly impacted by the weather during the winter months. With a long and cold winter during 2013, temperatures were 9% colder than normal while the first nine months of 2012 were 13% warmer than normal. These extremes period-over-period led to 23% colder weather and drove a 5.7 PJ increase in the volume of natural gas delivered to distribution customers. The continued customer growth also resulted in additional delivery volumes as well as basic monthly charge revenue, which added to the increase in delivery revenue when compared to 2012.



As was experienced in 2012, the variability of winter weather has a significant impact on the volume of natural gas delivered to customers. Consequently, the relatively high level of delivery revenue recognized during the first nine months of 2013 may or may not continue throughout the remainder of the year.

During the third quarter of 2013, delivery revenue of $31 million was $1 million above the third quarter of 2012. Most of the increase resulted from higher basic monthly charge revenue, a result of the growth in customers. Effective September 1, 2013, the Corporation also implemented an approved delivery rate increase. With the change to delivery service rate, the average monthly bill for residential customers increased 2.1%.

Transportation and Storage Revenue

The Corporation's subsidiary, TransGas, provides natural gas transportation through the use of the TransGas Energy Pool (TEP), a notional point where producers, marketers and end-users can match supply to demand. On the receipt side, the Corporation offers both firm and interruptible transportation from points of receipt to TEP. On the delivery side, the Corporation offers firm and interruptible service for gas delivered from TEP to export, as well as to the intra-Saskatchewan market. Integral to the Corporation's transmission system are several strategically located natural gas storage sites with the capacity to provide operational flexibility along with a highly reliable and competitive natural gas storage service.

The recent low market prices for natural gas have led to a significant decline in natural gas drilling in Western Canadian conventional gas reservoirs, including those in Saskatchewan. At the same time, low market prices combined with the expansion of the provincial economy have resulted in increased demand within the industrial sector, transitioning Saskatchewan from a net exporter to a net importer of natural gas. Consequently, the Corporation has experienced an increase in deliveries within Saskatchewan as well as an increase in volumes imported from Alberta, adding a significant degree of cost pressure to the transmission system.

During 2013, higher contracted deliveries within Saskatchewan, along with an increase to transportation and storage rates, led to a $5 million increase in year-to-date transportation and storage revenue when compared to last year. Effective March 1, 2013 the Corporation increased transportation rates by an average 1.4% and storage rates by an average 6.4% for an overall average 2.5% increase. The rate increase was primarily due to increased costs incurred by the Corporation to ensure continued high quality, safe and reliable service for its customers, including an increased focus on system integrity, emergency response and public awareness. The storage rate increase was impacted by expansions that have occurred over the last several years, during which time the Corporation's storage rates decreased. With this rate increase, the Corporation's storage rates will still average less than in 2005.

On a quarterly basis, transportation and storage revenue was $2 million above 2012. This was a consequence of both the rate and demand increases discussed above.

Customer Capital Contribution Revenue

Customer capital contribution revenue for both the first nine months and the third quarter of 2013 was $1 million above the same periods in 2012 reflecting the high levels of customer growth experienced in the Distribution Utility. The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. These contributions, less potential refunds, are recognized as revenue once the related property, plant and equipment is available for use. The volume and magnitude of these contributions can vary significantly period over period as varying factors influence their receipt.

Other Revenue

Other revenue primarily consists of revenue from natural gas processing operations, royalties and liquid credits earned through importing gas from Alberta. The Corporation's natural gas processing operations include gas processing at two separate gas plants along with the sale of natural gas liquids from the processing operations. Royalty revenue is generated from a gross overriding royalty on over 450 natural gas-producing properties in Saskatchewan and Alberta. Other revenue of $11 million for the first nine months of 2013, as well as $4 million for the third quarter of 2013, were each $1 million above the same periods in 2012. This was due to higher liquid credits related to the Corporation's NIT to TEP service, a consequence of higher volumes imported from Alberta.

Other Expenses

Employee benefits include the salaries, wages and benefits provided to the Corporation's employees, less allocations to capital assets as a result of employee work on capital projects. Total employee benefits recognized as an expense during the first nine months of 2013 was $65 million, consistent with the prior year. While the level of full-time equivalent employees was relatively unchanged from 2012, salaries and wages were higher mainly due to an economic increase for employees. This was offset by higher allocations to capital assets related to the Distribution Utility's customer growth. During the third quarter the Corporation and its union, Unifor, (formerly Communications, Energy and Paperworkers (CEP) Local 649) successfully completed a new Collective Bargaining Agreement for a four-year term effective February 1, 2013. The Corporation has recognized the impact in its consolidated financial statements.

Operating and maintenance expense of $69 million for the first nine months of 2013 was $11 million above the prior year due to several varying factors, all of which help the Corporation to better serve its growing customer base. More volumes of natural gas imported from Alberta, along with new contracts in 2013, increased the Corporation's third party transportation costs. The Corporation also incurred higher computer costs and contracting and consulting charges. The Corporation worked on several key information services projects, most notably implementation of the Distribution Utility's Customer Information System (CIS) during the third quarter of 2013, which will better position the Corporation to serve its customers. The Corporation remains committed to finding innovative ways to improve efficiency while containing costs. Through this commitment, the Corporation has improved processes and managed resources to counter such cost drivers as continued customer growth and non-controllable increases from third parties. Consistent with the Crown Sector Priorities, the Corporation has supplemented its delivery capabilities through outsourcing and procurement of services in order to efficiently meet customer needs. By using external contractors, as well as process improvements like four-party trenching, the Corporation has been able to keep up with increased customer demand for services. Through the New West Partnership Agreement, the Corporation was able to gain access to a broader and more diverse array of service providers allowing the implementation of innovative solutions that helped to lessen the impact of cost increases.

Depreciation and amortization expense of $56 million for the period ended September 30, 2013 was consistent with the same period in 2012. The significant level of capital expenditures throughout 2012 led to a higher capital asset base at the beginning of 2013, resulting in additional depreciation and amortization expense. However, the Corporation also implemented two separate independent depreciation studies during 2013. The first depreciation study related to the Transmission Utility assets and was implemented during the first quarter of 2013. The second study related to the Distribution Utility assets and was implemented during the third quarter of 2013. As changes in estimates, the results of both studies were applied prospectively commencing January 1, 2013. The Transmission Utility study resulted in an approximate $3 million increase in depreciation and amortization expense year to date, while the Distribution Utility study resulted in an approximate $3 million decrease in year-to-date depreciation and amortization expense.

Saskatchewan taxes of $9 million, which include corporate capital taxes paid to the Province and grants-in-lieu of taxes paid to municipalities, were $2 million above the prior year's first nine months. The increase was related to higher corporate capital taxes, a result of growth in the Corporation's capital base, as well as increases in grants-in-lieu of taxes.

Finance income is comprised of earnings, as well as fair value adjustments, on the Corporation's debt retirement funds. The main component of finance expenses is interest expense on the Corporation's short- and long-term debt, less amounts added to the cost of qualifying capital assets. For the nine month period net finance expenses, before the impact of fair value adjustments, were $29 million compared to $28 million in 2012. As part of the previously discussed Distribution Utility depreciation study implemented in September 2013, the Corporation recognized a $52 million provision for the future removal costs of its assets. As a provision, the Corporation discounts the expected cash flows required to settle the future obligation. The unwinding of the discount is recognized as finance expense over the estimated time period until settlement of the

obligation. Since the provision was increased significantly, the related unwinding of the discount also increased leading to an additional $1 million in finance expense. There was also a $6 million unfavourable fair value adjustment on debt retirement funds during the nine months of 2013, an outcome of rising interest rates on the fair value of primarily fixed-rate investments.

For the third quarter of 2013, other expenses of $80 million were $10 million above 2012. As discussed previously, higher third party transportation costs, contracting and consulting charges and computer costs led to higher operating and maintenance expenses while implementation of the Distribution Utility depreciation study reduced depreciation and amortization expense.

Liquidity and Capital Resources

	Three months ended September 30			Nine months ended September 30		
(millions)	2013	2012	Change	2013	2012	Change
Cash provided by operating activities	**$ 22**	$ 14	$ 8	**$ 188**	$ 133	$ 55
Cash used in investing activities	**(64)**	(48)	(16)	**(121)**	(115)	(6)
Cash provided by (used in) financing activities	**44**	34	10	**(68)**	(39)	(29)
Increase (decrease) in cash during the period	**$ 2**	$ -	$ 2	**$ (1)**	$ (21)	$ 20

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans from the Province's General Revenue Fund and a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

Cash from operating activities was $188 million for the first nine months of 2013, an increase of $55 million from the same period last year. Colder than normal weather resulted in increased cash flow for the Distribution Utility. In addition, the Corporation received a significant customer capital contribution during the second quarter that increased cash flow from operations although it was not recognized in net income. During 2012, the Corporation took advantage of a considerable drop in natural gas prices by increasing the volume of natural gas in storage held for gas marketing purposes. With natural gas prices higher in 2013, the Corporation has decreased the volume of natural gas in storage leading to an increase in cash flow from operations.

Cash used in investing activities totaled $121 million for the first nine months of the year, with most of this directed toward expanding the capacity and maintaining the integrity of the Corporation's extensive distribution and transmission systems. The high level of capital investment reflects not only the growth in Saskatchewan, but also the Corporation's continued commitment to enhance its already robust safety programming and integrity systems. When compared to the first half of 2012, capital investment was $6 million higher driven by the increased activity within the Distribution Utility.

Cash used for financing activities in the first nine months of 2013 was $68 million. Impacted by strong year-to-date operating results, the Corporation reduced its debt balances by $5 million and paid $25 million in dividends to its parent, CIC. SaskEnergy's debt to equity ratio at the end of the period was 58.5% debt and 41.5% equity, a slight improvement from 2012 year end, but higher than the Corporation's long-term target of 57.0% debt and 43.0% equity. This was due to higher debt balances, an outcome of heightened capital expenditures required to meet growing customer demand.

Outlook

With a solid financial position and a positive outlook for the future, the Corporation anticipates strong financial returns with a targeted net income before unrealized market value adjustments of $72 million for 2013. As the Saskatchewan economy continues to grow, SaskEnergy expects continued strong demand for natural gas services in both the Distribution and Transmission Utilities. As the cleanest burning fossil fuel, the business and environmental benefits of natural gas will continue to make it the energy source of choice for many consumers. Opportunities beyond the Corporation's regulated utilities will further expand SaskEnergy's business within Saskatchewan and many of these opportunities, such as the Corporation's recently opened compressed natural gas truck-transport supply station, possess an environmental up-side as well. The Corporation also anticipates continued margins from gas marketing activities as it takes advantage of market opportunities.

For the remainder of 2013, the Corporation plans to spend $79 million on capital expenditures to meet customer needs and ensure the continued reliability of the transmission and distribution systems. This level of expenditure is expected to be maintained in the upcoming years. In alignment with the Government of Saskatchewan's Crown Sector Priorities, SaskEnergy will invest approximately $1 billion in capital projects between 2013 and 2017, delivering initiatives related to customer growth, system integrity and supply acquisition, among others. The Corporation will also have $488 million in anticipated financial obligations coming due during the next 12 months, which includes $140 million of long-term debt principal and interest.

The Corporation is well-positioned to fund future capital expenditures and financial obligations through its consistent operating cash flows and access to debt through the Province. Given the Province's "AAA" credit rating, the Corporation is able to take advantage of historically low interest rates to fund these expenditures, matching the multi-generational life expectancy of the

capital assets. Each year, with the cooperation and consultation of the Province, CIC and management, the Corporation prepares a Debt Management Plan that factors the current interest rate environment with liquidity requirements to plan for short- and long-term borrowings for the coming years. In addition, the Corporation's strategic objective designed to inject natural gas into storage during low priced periods and hold the gas for resale in future periods will generate additional margins and cash flow for the Corporation.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions)	Notes	As at September 30, 2013 (unaudited)	As at December 31, 2012 (audited)
Assets			
Current assets			
Cash		**$ 1**	$ 2
Trade and other receivables		**49**	119
Natural gas in storage held for resale	4	**229**	238
Inventory of supplies		**12**	11
Debt retirement funds		**8**	2
Assets held for sale	5	**2**	-
Fair value of derivative instruments	6	**35**	53
		336	425
Intangible assets		**45**	37
Property, plant and equipment		**1,608**	1,501
Debt retirement funds		**72**	74
		$ 2,061	$ 2,037
Liabilities and Province's equity			
Current liabilities			
Short-term debt		**$ 270**	$ 275
Trade and other payables		**71**	105
Dividends payable		**7**	11
Current portion of long-term debt		**100**	50
Deferred revenue		**64**	41
Fair value of derivative instruments	6	**40**	58
		552	540
Employee future benefits		**11**	12
Provisions		**70**	18
Deferred revenue		**9**	9
Long-term debt		**712**	762
		1,354	1,341
Province's equity			
Equity advances		**72**	72
Retained earnings		**635**	624
		707	696
		$ 2,061	$ 2,037

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

(millions)	Notes	For the Three Months Ended September 30, 2013 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 8)	Total	For the Three Months Ended September 30, 2012 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 8)	Total
Revenue							
Natural gas sales	9	$ 109	$ (7)	$ 102	$ 82	$ (23)	$ 59
Delivery		31	-	31	30	-	30
Transportation and storage		23	-	23	21	-	21
Customer capital contributions		4	-	4	3	-	3
Other		4	-	4	3	-	3
		171	(7)	164	139	(23)	116
Expenses							
Natural gas purchases (net of change in inventory)	9	110	(5)	105	85	(55)	30
Employee benefits		20	-	20	21	-	21
Operating and maintenance		27	-	27	18	-	18
Depreciation and amortization		17	-	17	19	-	19
Saskatchewan taxes		5	-	5	3	-	3
		179	(5)	174	146	(55)	91
Income (loss) before the following		(8)	(2)	(10)	(7)	32	25
Finance income		1	(1)	-	2	(1)	1
Finance expenses		(12)	-	(12)	(11)	-	(11)
Net finance expenses		(11)	(1)	(12)	(9)	(1)	(10)
Total net income (loss) and comprehensive income (loss)		$ (19)	$ (3)	$ (22)	$ (16)	$ 31	$ 15

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

(millions)	Notes	For the Nine Months Ended September 30, 2013 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 8)	Total	For the Nine Months Ended September 30, 2012 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 8)	Total
Revenue							
Natural gas sales	9	$ 430	$ (17)	$ 413	$ 330	$ (37)	$ 293
Delivery		145	-	145	127	-	127
Transportation and storage		68	-	68	63	-	63
Customer capital contributions		12	-	12	11	-	11
Other		11	-	11	10	-	10
		666	(17)	649	541	(37)	504
Expenses							
Natural gas purchases (net of change in inventory)	9	402	(19)	383	314	(77)	237
Employee benefits		65	-	65	65	-	65
Operating and maintenance		69	-	69	58	-	58
Depreciation and amortization		56	-	56	55	-	55
Saskatchewan taxes		9	-	9	7	-	7
		601	(19)	582	499	(77)	422
Income before the following		65	2	67	42	40	82
Finance income		4	(6)	(2)	4	(2)	2
Finance expenses		(33)	-	(33)	(32)	-	(32)
Net finance expenses		(29)	(6)	(35)	(28)	(2)	(30)
Total net income and comprehensive income		$ 36	$ (4)	$ 32	$ 14	$ 38	$ 52

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

(millions)	Retained Earnings	Equity Advances	Other Components of Equity	Total
Balance as at January 1, 2012	$ 544	$ 72	$ -	**$ 616**
Comprehensive income	52	-	-	**52**
Dividends	(17)	-	-	**(17)**
Balance as at September 30, 2012	$ 579	$ 72	$ -	**$ 651**
Balance as at January 1, 2013	$ 624	$ 72	$ -	**$ 696**
Comprehensive income	32	-	-	**32**
Dividends	(21)	-	-	**(21)**
Balance as at September 30, 2013	$ 635	$ 72	$ -	**$ 707**

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(millions)	Notes	For the Nine Months Ended September 30 2013	2012
Operating activities			
Net income		**$ 32**	$ 52
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	8	**-**	(20)
Change in revaluation of natural gas in storage to net realizable value	8	**(2)**	(20)
Depreciation and amortization		**56**	55
Net finance expenses		**35**	30
Gain on disposal of assets		**(1)**	-
Other non-cash items		**-**	1
		120	98
Net change in non-cash working capital related to operations	10	**68**	35
Cash provided by operating activities		**188**	133
Investing activities			
Additions to intangible assets		**(9)**	(8)
Additions to property, plant and equipment		**(112)**	(107)
Net proceeds on disposal of assets		**-**	-
Cash used in investing activities		**(121)**	(115)
Financing activities			
Debt retirement funds installments		**(6)**	(5)
Decrease in short-term debt		**(5)**	(130)
Dividends paid		**(25)**	(21)
Proceeds from long-term debt		**-**	147
Interest paid		**(32)**	(30)
Cash used in financing activities		**(68)**	(39)
Decrease in cash and cash equivalents		**(1)**	(21)
Cash and cash equivalents, beginning of period		**2**	21
Cash and cash equivalents, end of period		**$ 1**	$ -

(See accompanying notes)

For the Nine Months Ended September 30, 2013

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincially owned Crown corporation operating under authority of *The SaskEnergy Act*. The address of SaskEnergy's registered office and principal place of business is 1777 Victoria Avenue, Regina, Saskatchewan, Canada S4P 4K5.

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan. The condensed consolidated financial statements should not be taken as indicative of the performance to be expected for the full year due to the seasonal nature of the natural gas business.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of preparation

a. Statement of compliance

The Corporation's unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). These condensed consolidated financial statements do not include all the information required for the Corporation's annual consolidated financial statements. Accordingly, these statements should be read with reference to the annual report for the year ended December 31, 2012.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on November 13, 2013.

b. Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except where otherwise noted.

c. Functional and presentation currency

These condensed consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest million.

d. Use of estimates and judgments

In the application of the Corporation's accounting policies management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as any future periods affected.

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the condensed consolidated financial statements include:

Revenue recognition related to unbilled revenue
Existence of decommissioning liabilities

2. Basis of preparation (continued)

Information about significant management estimates and assumptions that have a significant risk of resulting in a material adjustment within the next financial period include:

Estimated unbilled revenue
Net realizable value of natural gas in storage held for resale
Fair value of financial and derivative instruments
Useful lives and amortization rates for intangible assets
Useful lives and depreciation rates for property, plant and equipment
Estimated unearned customer capital contributions
Employee future benefits and underlying actuarial assumptions
Estimated future cost of decommissioning liabilities

3. Summary of significant accounting policies

The accounting policies, as detailed in Note 3 to the consolidated financial statements for the year ended December 31, 2012, have been applied consistently, by the Corporation and its subsidiaries, to all periods presented in these condensed consolidated financial statements, with the exception of the changes in accounting policies identified below.

a. Changes in accounting estimates

Effective January 1, 2013, the results of an independent third party depreciation study were implemented on the property, plant and equipment and intangible assets of TransGas Limited, the Corporation's wholly owned subsidiary. As a change in estimate, the impact was applied prospectively commencing January 1, 2013 and resulted in an approximate $3 million increase in depreciation and amortization expense for the nine months ended September 30, 2013.

During September 2013, the Corporation implemented the results of an independent third party depreciation study related to the property, plant and equipment and intangible assets of SaskEnergy's Distribution Utility. As a change in estimate, the impact was applied prospectively commencing January 1, 2013 and resulted in an approximate reduction of $3 million in depreciation and amortization expense for the nine months ended September 30, 2013.

The Corporation also recognized provisions for the future removal costs of the Distribution Utility's assets, a result of both the above noted depreciation study as well as recent changes in the Corporation's historical experience with asset removals. By nature, the existence of decommissioning liabilities is a matter of management judgment with the amount subject to considerable management estimate. As such, the recognition of the decommissioning liabilities was a change in accounting estimate and applied prospectively. During the third quarter, a provision of $52 million was recorded effective January 1, 2013 with a corresponding increase to property, plant and equipment. Decommissioning liabilities reflect the discounted anticipated future cash flows, and as such, the Corporation also recognized an additional $1 million in finance expense for the nine months ended September 30, 2013 related to unwinding of the discount on the above decommissioning liabilities.

b. Changes in accounting policies

Effective January 1, 2013, the Corporation adopted amendments to IAS 19 *Employee Benefits* in accordance with the transitional provisions of the standard. The amendments, which impact the Corporation's defined benefit Retiring Allowance Plan, require the Corporation to recognize actuarial gains and losses immediately in other comprehensive income and all current service costs and interest expense immediately in net income. The Corporation will transfer any actuarial gains or losses from other equity to retained earnings in the year it is recognized in other comprehensive income. Prior to the amendments, the Corporation recognized actuarial gains and losses, current service costs and interest expense immediately in net income.

There was no impact on the Corporation's financial position from the application of this standard. Effective January 1, 2012, the beginning of the comparative period, $1 million in accumulated actuarial losses was reclassified to other equity and was immediately transferred to retained earnings in accordance with the Corporation's accounting policy. There was also no impact on the Corporation's condensed consolidated statement of comprehensive income for either the nine month period ended September 30, 2013 or the comparative period as the Corporation does not complete actuarial valuations until December 31 of each year. The Corporation will restate its net income for the year ended December 31, 2012 to remove a $1 million actuarial loss from employee benefits that will then be recognized in other comprehensive income and subsequently transferred directly to retained earnings.

3. Summary of significant accounting policies (continued)

In addition to IAS 19, the Corporation adopted the following other new and amended IFRS effective January 1, 2013:

IFRS 7 *Financial Instruments: Disclosures*
IFRS 10 *Consolidated Financial Statements*
IFRS 11 *Joint Arrangements*
IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 13 *Fair Value Measurement*
IAS 27 *Separate Financial Statements*
IAS 28 *Investments in Associates and Joint Ventures*

The adoption of these standards had no material impact on the condensed consolidated financial statements. Any new disclosure requirements will be included in the Corporation's consolidated financial statements for the year ended December 31, 2013.

c. Future changes in accounting policies

The following new and amended standards are not yet effective and have not been applied in preparing these consolidated financial statements:

IFRS 9 *Financial Instruments* – reduces measurement classification of financial assets to one of two categories: amortized cost or fair value. The classification is based on an entity's business model for managing the asset and the contractual cash flow characteristics of the asset. This standard is effective for annual periods beginning on or after January 1, 2015.

IAS 32 Financial Instruments: Presentation – clarifies certain items regarding offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014.

SaskEnergy is continuing to review these new and amended standards and has not yet determined the impact on its consolidated financial statements.

4. Natural gas in storage held for resale

(millions)	As at September 30, 2013	As at December 31, 2012
Cost	**$ 251**	$ 262
Revaluation to net realizable value	**(22)**	(24)
	$ 229	$ 238

With the decline in natural gas market prices over the last few years, the net realizable value of natural gas in storage at the end of the period has fallen $22 million below cost (December 31, 2012 - $24 million).

As at September 30, 2013, the Corporation expects that $135 million of the current inventory value will be sold or consumed within the next year and $94 million of the current inventory value will be sold or consumed after more than one year.

5. Assets held for sale

During the third quarter of 2013, the Corporation committed to a plan to sell several natural gas storage assets within a 12-month period. Accordingly, these assets have been classified as assets held for sale on the consolidated statement of financial position as at September 30, 2013. Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and are no longer depreciated. The carrying amount of assets held for sale, which is less than fair value less costs to sell, was as follows:

(millions)	As at September 30, 2013
Property, plant and equipment	**$ 2**

6. Financial and derivative instruments and risk management

a. Financial and derivative instruments

(millions)	Classification	Fair Value Hierarchy	As at September 30, 2013 Carrying Amount	As at September 30, 2013 Fair Value	As at December 31, 2012 Carrying Amount	As at December 31, 2012 Fair Value
Financial and derivative assets						
Cash	FVTPL	Level 1	**$ 1**	**$ 1**	$ 2	$ 2
Trade and other receivables	LAR	-	**49**	**49**	119	119
Debt retirement funds	FVTPL	Level 2	**80**	**80**	76	76
Fair value of derivative instrument assets	FVTPL	Level 2	**35**	**35**	53	53
Financial and derivative liabilities						
Short-term debt	OL	-	**270**	**270**	275	275
Trade and other payables	OL	-	**71**	**71**	105	105
Dividends payable	OL	-	**7**	**7**	11	11
Long-term debt	OL	Level 2	**812**	**926**	812	993
Fair value of derivative instrument liabilities	FVTPL	Level 2	**40**	**40**	58	58

Classification details:
FVTPL - fair value through profit or loss
LAR - loans and receivables
OL - other liabilities

The fair value of the above instruments is based on the following:

i. Debt retirement funds - The market value of the investments held in debt retirement funds as determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

ii. Fair value of derivative instruments - The fair value of natural gas derivative instruments is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes.

iii. Other financial instruments - The fair value of other financial instruments, including cash, trade and other receivables, bank indebtedness, short-term debt, trade and other payables and dividends payable approximate their carrying amounts due to the short-term nature of these instruments.

6. Financial and derivative instruments and risk management (continued)

As at September 30, 2013 natural gas derivative instruments had the following fair values, notional values and maturities:

(millions)	2014	2015	2016	2017	2018	Total
Physical natural gas contracts						
Fair value	$ 9	$ 4	$ 1	$ -	$ -	**$ 14**
Notional value	70	21	(3)	(16)	(1)	**71**
Natural gas price swaps						
Fair value	(9)	(3)	(4)	(3)	-	**(19)**
Notional value	(9)	(3)	(4)	(3)	-	**(19)**
Total						
Fair value	$ -	$ 1	$ (3)	$ (3)	$ -	**$ (5)**
Notional value	$ 61	$ 18	$ (7)	$ (19)	$ (1)	**$ 52**

Fair value - increase (decrease) in net income
Notional value - estimated undiscounted net cash inflow (outflow)

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. For natural gas price swaps, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

The Corporation's natural gas contracts are subject to master netting agreements. While the Corporation does not net these contracts within the consolidated financial statements, it does settle with its counterparties on a net basis. The net amounts for both fair value and notional value are disclosed in the above table.

The fair value of derivative instruments is presented in the consolidated financial position as follows:

(millions)	As at September 30, 2013	As at December 31, 2012
Fair value of derivative instrument assets	**$ 35**	$ 53
Fair value of derivative instrument liabilities	**(40)**	(58)
	$ (5)	$ (5)

b. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk and foreign currency risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives, policies and processes for managing risk were consistent with the prior period. The significant risks in relation to financial instruments that impact the Corporation are discussed below.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions and forward contracts.

6. Financial and derivative instruments and risk management (continued)

Based on the Corporation's period end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $31 million (December 31, 2012 - $36 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $31 million (December 31, 2012 - $36 million).

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at September 30, 2013 were as follows:

		Contractual Maturities				
(millions)	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years	Total
Short-term debt	$ 270	$ 270	$ -	$ -	$ -	**$ 270**
Trade and other payables	71	71	-	-	-	**71**
Dividends payable	7	7	-	-	-	**7**
Derivative instruments	40	-	-	26	-	**26**
Long-term debt	812	140	37	304	879	**1,360**
	$ 1,200	$ 488	$ 37	$ 330	$ 879	**$ 1,734**

At period end, the Corporation's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund these contractual obligations.

The Corporation has posted a $15 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract.

iii. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, trade and other receivables, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At period end, the maximum credit exposure to a single counterparty was $7 million (December 31, 2012 - $19 million).

7. Commitments and contingencies

At period end, the Corporation forecasted to spend an additional $79 million (December 31, 2012 - $236 million) on capital projects during the remainder of 2013, and the Corporation had $93 million (December 31, 2012 - $59 million) of outstanding contractual commitments for the procurement of goods and services in the future.

8. Unrealized market value adjustments

(millions)	For the Three Months Ended September 30 2013	2012	For the Nine Months Ended September 30 2013	2012
Change in fair value of debt retirement funds	$ (1)	$ (1)	$ (6)	$ (2)
Change in fair value of natural gas derivative instruments	(2)	12	-	20
Change in revaluation of natural gas in storage to net realizable value	-	20	2	20
	$ (3)	$ 31	$ (4)	$ 38

9. Natural gas sales and purchases

	For the Three Months Ended September 30					
	2013			2012		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	$ 13	$ -	$ 13	$ 15	$ -	$ 15
Realized on natural gas derivative instruments	-	96	96	9	58	67
Fair value of natural gas derivative instruments	-	(7)	(7)	-	(23)	(23)
	13	89	102	24	35	59
Natural gas purchases						
Realized on natural gas derivative instruments	(21)	(89)	(110)	(40)	(45)	(85)
Fair value of natural gas derivative instruments	2	3	5	33	2	35
Revaluation of natural gas in storage	-	-	-	-	20	20
	(19)	(86)	(105)	(7)	(23)	(30)
	$ (6)	$ 3	$ (3)	$ 17	$ 12	$ 29

9. **Natural gas sales and purchases (continued)**

	For the Nine Months Ended September 30					
	2013			2012		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
Natural gas sales						
Natural gas sales to commodity customers	$ 140	$ -	$ 140	$ 140	$ -	$ 140
Realized on natural gas derivative instruments	-	290	290	21	169	190
Fair value of natural gas derivative instruments	-	(17)	(17)	(1)	(36)	(37)
	140	273	413	160	133	293
Natural gas purchases						
Realized on natural gas derivative instruments	(134)	(268)	(402)	(182)	(132)	(314)
Fair value of natural gas derivative instruments	15	2	17	53	4	57
Revaluation of natural gas in storage	-	2	2	-	20	20
	(119)	(264)	(383)	(129)	(108)	(237)
	$ 21	$ 9	$ 30	$ 31	$ 25	$ 56

10. **Net change in non-cash working capital related to operations**

	For the Nine Months Ended September 30	
(millions)	2013	2012
Trade and other receivables	**$ 70**	$ 57
Natural gas in storage held for resale	**11**	(14)
Inventory of supplies	**(1)**	(1)
Trade and other payables	**(35)**	(21)
Deferred revenue	**23**	14
	$ 68	$ 35